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IN THE

Supreme Court of the United States

October Term, 1968
No. 471

PERFO-LOG, INC.,

Petitioner,

vs.

WELL SURVEYS, INC., now DRESSER SYSTEMS, INC., and DRESSER INDUSTRIES, INC.,

Respondents.

Petition for Writ of Certiorari to the United States Court of Appeals for the Tenth Circuit.

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SUBJECT INDEX

	Page
Citations to Opinions Below	1
Jurisdiction	2
Question Presented	2
Statement of the Case	2
Reasons Relied on for Allowance of the Writ	6
Conclusion	14
Appendix A. Judgment of the United States Court of Appeals for the Tenth Circuit	15
Opinion of the United States Court of Appeals for the Tenth Circuit	16
Findings of Fact and Conclusions of Law, District Court, W. D. Oklahoma, No. 9542	23

INDEX TO APPENDIX B
(In Separate Volume)

Tabulation of Twenty-Three of Respondents' License Agreements Which Cover the Swift Patent Plus One or More Additional Patents ..... App. B. pp. i, ii, iii

The twenty-three package license agreements summarized in the above tabulation 1-180

Letter from Dresser Industries, Inc., "To Licensees under Patents owned by Dresser Industries, Inc.", together with a proposed License Agreement covering the Peterson Patent No. 2,967,994 181-184

Excerpts from the Complaint of Joseph Bancroft & Sons Company v. M. Lowenstein & Sons, Inc. 185-195

Excerpts from Answer in Joseph Bancroft & Sons Company v. Lowenstein & Sons, Inc. 196-199

TABLE OF AUTHORITIES CITED

Cases	Page
American Securit Co. v. Shatterproof Glass Corp., 268 F. 2d 769	9, 11, 14
Baker-Cammack Hosiery Mills v. Davis Co., 181 F. 2d 550	14
Brulotte v. Thys Co.	9, 12, 13
Hensley Equipment Company v. Esco Corporation, 383 F. 2d 252	13
McCullough Tool Co. v. Well Surveys, Inc., 343 F. 2d 381; cert. den. 383 U.S. 933	10, 11
Rocform Corp. v. Acitelli-Standard Concrete Wall, Inc., 367 F. 2d 678	3, 4, 6, 9, 10, 14
Scott Paper Co. v. Marcalus Co.	8
Technograph Printed Circuits, Ltd. v. Bendix Aviation Corp., 218 F. Supp. 1	14
United States v. Loew's, Inc., 371 U.S. 38	8
United States v. Paramount Pictures, Inc., 334 U.S. 131, 77 USPQ 243	8, 12

Rules	
Federal Rules of Civil Procedure, Rule 56	3

Statutes	
United States Code, Title 28, Sec. 1254(1)	2
United States Code, Title 28, Sec. 1338	3
United States Code, Title 35, Sec. 112	7
United States Code, Title 35, Sec. 154	7
United States Code, Title 35, Sec. 271	3

Textbooks	
151 United States Patent Quarterly, p. 305	3
151 United States Patent Quarterly, pp. 307-308	3
154 United States Patent Quarterly, p. 313	1
158 United States Patent Quarterly, p. 119	2

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WELL SURVEYS, INC., now DRESSER SYSTEMS, INC., and DRESSER INDUSTRIES, INC.,

Respondents.

Petition for Writ of Certiorari to the United States Court of Appeals for the Tenth Circuit.

Petitioner, Perfo-Log, Inc., prays that a Writ of Certiorari issue to review the Judgment of the United States Court of Appeals for the Tenth Circuit entered in the above-entitled case on June 4, 1968, which reversed Summary Judgment entered in favor of Petitioner and against Respondents adjudicating the Swift Patent No. 2,554,844 to be misused.

Citations to Opinions Below.

The District Court did not render a formal opinion but did make and enter Findings of Fact, Conclusions of Law and Judgment on the misuse issues, which are reported in 154 USPQ 313. The Findings, Conclusions and Judgment were not reported in the Official Report-

er. The Findings of Fact, Conclusions of Law and Judgment are printed in Appendix A, p. 23.

The Opinion of the Court of Appeals for the Tenth Circuit is not reported in the Official Reporter, but is reported in 158 USPQ 119. The Judgment and Opinion of the Court of Appeals for the Tenth Circuit are printed in Appendix A, pp. 15-22.

Jurisdiction.

The date of the Opinion of the Court of Appeals for the Tenth Circuit is May Term, 1968, and the time of its entry is June 4, 1968.

The jurisdiction of this Court is invoked under 28 USC § 1254(1).

Question Presented.

Whether patent license agreements which (i) cover one important patent and one or more patents of lesser importance but of longer duration, and (ii) contain no provision for the reduction of royalty at the expiration of the important patent, and (iii) contain no termination provision at the will of the licensees until the lapse of varying periods *after* the expiration of the important patent, constitute patent misuse *per se* for they are, in effect, an effort to continue to collect royalty on the important patent after its expiration?

Statement of the Case.

Petitioner refused to take a patent license from respondents, and was thereafter sued by them for patent infringement. Respondents' complaint, filed December 26, 1961, charged petitioner with infringement of 9 patents [R. 1]. The jurisdiction of the District Court

was invoked under Title 28 USC § 1338 and Title 35 USC § 271. Petitioner denied infringement and asserted invalidity and patent misuse as defenses [R. 16, 397]. By Order of Partial Dismissal, 7 patents were eliminated from the case [R. 341]. Only the Swift Patent No. 2,554,844 and the Peterson Patent No. 2,967,994 remain in the case.

Petitioner moved for Summary Judgment under Rule 56 of the Federal Rules of Civil Procedure adjudging that the Swift patent is unenforceable because respondents by their licensing practices, require the payment of royalties under the Swift patent beyond its expiration date [R. 768]. Petitioner's Motion for Summary Judgment was based, in part, [R. 796] on *Rocform Corp. v. Acitelli-Standard Concrete Wall, Inc.* (C.A. 6, 1966), 367 F. 2d 678, 680 and 681, 151 USPQ 305, 307, 308, which held:

> "We believe such a contract, when it contains no diminution of license fee at the expiration of the most important patent and contains no termination clause at the will of the licensee, constitutes, in effect, an effort to continue to collect royalties on an expired patent. *Brulotte v. Thys Co., supra; American Securit Co. v. Shatterproof Glass Corp., supra.*"

The District Court, espousing the rule of *Rocform*, held the Swift patent to be unenforceable because of misuse by respondents in their licensing practices:

> "7. A license agreement when it contains no diminution of license fee at the expiration of the most important patent and contains no termination clause at the will of the licensee constitutes in

effect an effort to continue to collect royalties on an expired patent, Rockform Corp. v. Acitelli-Standard Concrete Wall Inc., (C.A. 6, 1966), 367 F.2d 678, 680 and 681, 151 USPQ 305, 307, 308."

(District Court, Appendix A. p. 41).

"9. The license agreements between plaintiff and Jetco, Star, French, Luling, Maroney, Petroleum, Shelwell and Titan constitute in effect an effort to continue to collect royalties on the Swift Patent after its expiration because said agreements contain no diminution of license fee at the expiration of the important Swift Patent and contain no termination clause at the will of the licensee."

(District Court, Appendix A. p. 42).

The Court of Appeals reversed the District Court, proclaiming its *disagreement* with the *Rocform* decision:

"* * * If the Rocform decision is taken as holding that a package license, including both important and unimportant patents, is misuse per se when there is no diminution in royalty, or provision for termination, after the expiration of an important patent, *we respectfully disagree* and adhere to our decision in the first McCullough case. * * *" (Emphasis added).

(Appendix A, p. 21).

Significantly, the Court of Appeals did not upset the ruling of the District Court as to the relative importance of the Swift patent and other patents, the absence of provisions for diminution in royalty at the expiration of the Swift patent and the absence of termination clauses at the will of the licensees (until the lapse of

varying periods after the expiration of the Swift patent):

> "The district court found that licensees under the immunity agreements could not terminate until after the expiration of the Swift patent; and that there was no provision for change in royalty base or for diminution in royalty after the expiration of the Swift patent. * * *"
>
> (The Tenth Circuit Opinion, Appendix A, p. 18).
>
> "* * * Perfo-Log says that the licenses which it submitted in support of a summary judgment motion establish per se a misuse of the Swift patent. Prime reliances is had on eight agreements which covered both the Swift and the Peterson patents. These agreements were not terminable at the will of the licensee until the lapse of varying periods after the expiration of the Swift patent. The uniform royalty rate of 5% was not diminished after the expiration of Swift. * * *"
>
> (The Tenth Circuit Opinion, Appendix A, p. 19).

The holding of the District Court was premised on 23 package licenses[1]—with particular emphasis upon 8 of those licenses—granted by respondents during the period June 1, 1961 to June 9, 1965[2] [R. 954, 1105, 1124, 1199, 1690, 1249, 1259, 1286, 1305, 1323, 803,

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[1]The 23 package licenses are contained in Appendix B, pp. 1-180.

[2]A tabulation of the 23 package licenses granted by respondents showing the licensees; the effective dates; the patents included; the royalty payable; the earliest dates on which the licensees have the right to terminate; the other dates on which the licensees have the right to terminate; and the terms of the licenses unless otherwise terminated according to their provisions appears in Appendix B, pp. i, ii and iii.

812, 1333, 820, 830, 839, 847, 855, 1379, 1392, 863, 1419, 1428].

As in *Rocform,* the 23 package licenses included one important patent (the Swift patent) and one or more patents of lesser importance but of longer duration (*e.g.,* the Peterson patent) [R. 891-896, 1685-8 (see Appendix B, pp. 181-184), 1592, 1594].

As in *Rocform,* the 23 package licenses contain no provision for diminution in royalty at the expiration of the important Swift patent [R. 957, 1109, 1127, 1203, 1694, 1253, 1262, 1289, 1308, 1326, 806, 815, 1336, 823, 833, 842, 850, 858, 1382, 1395, 866, 1422, 1431].

As in *Rocform,* the 23 package licenses accord the licensees no right to terminate (until the lapse of varying periods after the expiration of the Swift patent). [R. 960, 1111, 1130, 1205, 1696, 1255, 1265, 1292, 1310, 1329, 809, 817, 1338, 826, 836, 844, 852, 860, 1384, 1397, 868, 1424, 1433].

REASONS RELIED ON FOR ALLOWANCE OF THE WRIT.

The decision of the Court of Appeals for the Tenth Circuit in the instant case conflicts with the decision of the Court of Appeals for the Sixth Circuit in *Rocform Corporation v. Acitelli-Standard Concrete Wall, Inc.,* (1966) 367 F. 2d 678, 680, 681, on the same matter:

In *Rocform,* the Court of Appeals for the Sixth Circuit said:	In the instant case, the Court of Appeals for the Tenth Circuit said:
"The District Judge, however, did not find this	"If the Rocform decision is taken as holding that a

standard licensing agreement illegal per se because it represented mandatory patent package licensing. He found plaintiff's license agreement illegal because it contained no termination clause and hence represented an attempted illegal extension of the patent in suit."

* * *

"We believe such a contract, when it contains no diminution of license fee at the expiration of the most important patent and contains no termination clause at the will of the licensee, constitutes, in effect, an effort to continue to collect royalties on an expired patent. Brulotte v. Thys Co., supra; American Securit Co. v. Shatterproof Glass Corp., supra."

package license, including both important and unimportant patents, is misuse per se when there is no diminution in royalty, or provision for termination, after the expiration of an important patent, *we respectfully disagree* and adhere to our decision in the first McCullough case." (Emphasis added).

A United States patent monopoly is statutorily limited in terms of subject matter by the patent claims (35 USC § 112) and in respect to time by the 17 year life specified by 35 USC § 154.

This Court has emphasized repeatedly the *per se* illegality inherent in any attempt to expand the patent monopoly by the use of private arrangements calculated to circumvent either parameter. Thus the "tying cases"

have condemned as *per se* misuse, all private contracts which, directly or indirectly, enlarge the scope of a patent to embrace unpatented subject matter.

In this context this Court has emphasized as well the unique nature of each patent, and the concomitant principle that to insure the integrity of the limits of each grant, no patent may borrow quality from another. In *United States v. Loew's, Inc.*, (1962) 371 U.S. 38, 46, 47, this Court quoted verbatim from the *Paramount* case decided 14 years earlier:

> "* * * In United States v. Paramount Pictures, Inc., 334 U.S. 131, 156-159, 77 USPQ 243, 252-253, the principle of the patent cases was applied to copyrighted feature films which had been block booked into movie theaters. The Court reasoned that
>
> "'* * * It is said that reward to the author or artist serves to induce release to the public of the products of his creative genius. But the reward does not serve its public purpose if it is not related to the quality of the copyright. Where a high quality film greatly desired is licensed only if an inferior one is taken the latter borrows quality from the former and strengthens its monopoly by drawing on the other. The practice tends to equalize rather than differentiate the reward for the individual copyrights. * * *'"

With equal firmness this Court has emphasized that all attempts to extend the *term* of a patent "by contract or any form of private arrangement" *Scott Paper Co. v. Marcalus Co.* including uses "by a patentee of royalty

agreements that project beyond the expiration date of a patent" are "unlawful *per se*" *Brulotte v. Thys. Co.*

Guided by the principles of *Brulotte* and *Shatterproof*[3] the Court of Appeals for the Sixth Circuit, one judge dissenting, held in *Rocform*, 367 F. 2d 678, 680 and 681:

> "The District Judge, however, *did not find this standard licensing agreement illegal per se because it represented mandatory patent package licensing.* He found plaintiff's license agreement illegal because it contained no termination clause and hence represented an attempted illegal extension of the patent in suit." (Emphasis added.)
>
> * * *
>
> "In the instant case the District Judge said: 'Upon expiration of the patent in suit the consideration for the grant of the license becomes substantially devaluated. * * *' The District Judge's findings make it clear that the patent in suit which expires in 1967 is the most important consideration for the license.

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[3]In *American Securit Co. v. Shatterproof Glass Corp.* (1959) 268 F. 2d 769, 777 the Court of Appeals for the Third Circuit struck down, as misuse *per se*, a license provision which is substantially identical to paragraph 4.03 of the 23 package licenses involved in the instant case:

> "(6) We conclude also, *and quite apart from all of the foregoing,* that Paragraph 8(a) of Securit's Standard Licensing Agreement which provides that that agreement shall continue 'in full force and effect to the expiration of the last to expire of any' of Securit's patents set out in 'Schedule A' constitutes a patent misuse for it extends the payment of royalties of patents under patents which may expire to the expiration date of that patent most recently granted to Securit. Indeed the expiration clause of the contract works an 'aggravating hardship' on the licensee as Judge Leahy stated, in that it demands the renunciation of all patents, whether wanted or unwanted under the license." (Emphasis Added).

"[2] We believe that the District Judge was correct in viewing this licensing agreement as an illegal attempt to extend the patent in suit. It contains no termination clause running to the benefit of the licensee. See 3A Corbin, Contracts § 761 (1960). After the expiration of the patent in suit, Rocform's licensees would continue to pay the same fees as are provided during the life of the crucial patent."

* * *

"* * * Rather we deal with a licensing arrangement where one important patent (about to expire) is grouped with others of longer duration for 'leverage.' Cf. *American Securit Co. v. Shatterproof Glass Corp., supra.*

"We believe such a contract, when it contains no diminution of license fee at the expiration of the most important patent and contains no termination clause at the will of the licensee, constitutes, in effect, an effort to continue to collect royalties on an expired patent. *Brulotte v. Thys Co., supra; American Securit Co. v. Shatterproof Glass Corp., supra.*"

The dissenting judge in *Rocform* premised his opinion upon the conflicting decision of the Court of Appeals for the Tenth Circuit in *McCullough Tool Co. v. Well Surveys, Inc.*, 343 F. 2d 381, Cert. den. 383 U.S. 933.

In the instant case the Tenth Circuit has flatly rejected the majority view in *Rocform* to espouse instead the theory of the *Rocform* dissent and to adhere to its

decision in the first *McCullough* case.[4] The resulting conflict in decision is acknowledged on the face of the decision below which states:

> "The district court found that licensees under the immunity agreements could not terminate until after the expiration of the Swift patent; and that there was no provision for change in royalty base or for diminution in royalty after the expiration of the Swift patent. * * *"
>
> (Appendix, A, p. 18).

> "* * * Prime reliances is had on eight agreements which covered both the Swift and the Peterson patents. These agreements were not terminable at the will of the licensee until the lapse of varying periods after the expiration of the Swift patent. The uniform royalty rate of 5% was not diminished after the expiration of Swift. * * *"
>
> (Appendix A, p. 19).

> "* * * If the Rocform decision is taken as holding that a package license, including both important and unimportant patents, is misuse per se when there is no diminution in royalty, or provision for termination, after the expiration of an important patent, *we respectfully disagree and adhere to our decision in the first McCullough* case. The relative importance of patents has no significance if a licensee is given the choice to take a patent alone or

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[4]Overlooking the express language (of *Shatterproof*, 268 F. 2d 769, 777) *"and quite apart from all of the foregoing"*, the Court of Appeals for the Tenth Circuit in the first McCullough case (*McCullough Tool Co. v. Well Surveys, Inc.*, 343 F. 2d 381, 409, 410) erroneously distinguished *Shatterproof*.

in combination on reasonable terms. Freedom of choice is the controlling question." (Emphasis added).

(Appendix A, p. 21).

Emphasizing its faulty premise that "Freedom of choice is the controlling question", the Court of Appeals for the Tenth Circuit stated:

"* * * *The relative importance of patents has no significance* if a licensee is given the choice to take a patent alone or in combination on reasonable terms. * * *" (Emphasis added).

In short, the Tenth Circuit has held that, assuming "freedom of choice" private arrangements which extend the monopoly of an important patent into the post-expiration period by grouping the important patent with one or more patents of lesser importance are not *per se* illegal at all. Ignoring this Court's contrary admonition in *Brulotte* the Tenth Circuit has effectively held that the rule of reason is to be applied to post-expiration royalty agreements, that such agreements are "reasonable" if the licensee is not "forced" to accept them, and that private parties are, by the ruse of such arrangements, free to extract post-expiration royalties from the public. And disregarding this Court's contrary mandate in *Paramount* and *Loew's*, the Tenth Circuit has effectively held that a patent "of lesser importance" (*e.g.*, the Peterson patent) may be grouped with an important patent (*e.g.*, the Swift patent) so as to borrow quality from that important patent.

The need for review of the decision in the instant case is readily apparent when it is recognized that the objectionable conflict in decisions is but the most recent

manifestation of the confusion in the lower courts consequent from this Court's *per se* condemnation of post-expiration royalties in *Brulotte*—while at the same time refusing to deal with the effect of the requirement, in package licenses, that licensees pay undiminished royalties when one or more but not all of the licensed patents has expired. A recent expression of the confusion is found in *Hensley Equipment Company v. Esco Corporation* (C.A. 5, 1967) 383, F. 2d 252, 264, 265:

> "* * * The Court (in *Brulotte*) held that no royalties could be collected which accrued after expiration of the last patent incorporated into the machine, as 'a projection of the patent monopoly after the patent expires is not enforceable.' *Significantly, the Court voiced no objection to the fact that the royalty rate did not vary when some, but less than all, of the patents incorporated into the device expired.* Compare American Securit Co. v. Shatterproof Glass Corp., 268 F.2d 769 (3rd Cir.), cert. denied, 361 U.S. 902, 80 S.Ct. 210, 4 L.Ed. 2d 157 (1959); Ar-Tik Systems, Inc. v. Dairy Queen, Inc., 302 F.2d 496 (3rd Cir., 1962), and Rocform Corp. v. Acitelli-Standard Concrete Wall, Inc., 367 F.2d 678 (6th Cir., 1966); Technograph Printed Circuits, Ltd. v. Bendix Aviation Corp., 218 F.Supp. 1, 48-49 (D.Md., 1963), aff'd, 327 F.2d 497 (4th Cir., 1964). (Emphasis added). (Parenthetical insertion added).
>
> "* * * This agreement is one step further from illegal extension of royalty payments than the situation in Brulotte v. Thys Co., supra, where the court *refused* to disapprove a requirement that royalties on an item embodying the inventions of

more than one patent be maintained when some but less than all of the patents had expired." (Emphasis added).

The question presented by this Petition extends far beyond the interests of Petitioner. Package license agreements typified by those in issue, are the most widely used form of license agreement in U.S. industry today. The 23 package licenses in issue and the package licenses involved in *Rocform, Shatterproof, Baker-Cammack Hosiery Mills v. Davis Co.* (C.A. 4, 1950) 181 F. 2d 550, 569, 573, *Technograph Printed Circuits, Ltd. v. Bendix Aviation Corp.*, (D.C. Md. 1963) 218 F. Supp. 1, 48-49, and *Joseph Bancroft & Sons Company v. M. Lowenstein & Sons, Inc.* (Appendix B, pp. 185-199) are but a few examples.

An authoritative ruling from this Court on the issue of package licensing is long overdue.

Conclusion.

For the foregoing reasons, this Petition for Writ of Certiorari should be granted.

Respectfully submitted,

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Dated August 30, 1968.